

Message Text

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LIMDIS

DEPT. PASS TREASURY FOR SVYRUD

E.O. 11652: GDS
TAGS: EFIN, EAID, PO, GW
SUBJECT: MEDIUM-TERM CREDIT FOR PORTUGAL

1. ECON COUNS BACHE AND FERRER MET WITH AMBASSADOR JAENICKE AND WITH POLITICAL AND ECONOMIC OFFICERS OF FRG FOREIGN MINISTRY FEB. 10. GERMAN OFFICIALS BASICALLY CONCURRED WITH LONG ANALYSIS PRESENTED BY U.S. OFFICERS ON PORTUGUESE SITUATION, BUT ADMITTED THAT THEY ARE NOT COMPLETELY CONVINCED OF GOP COMMITMENT TO NECESSARY ECONOMIC REFORMS. THEY QUESTIONED, FOR EXAMPLE, WHETHER GOP WOULD SOON ANNOUNCE THE TOTAL ECONOMIC PROGRAM THEY HAVE BEEN PROMISING OR WHETHER SOCIALISTS HAVE DEFINITELY REJECTED COOPERATION WITH OR SUPPORT FROM PORTUGUESE COMMUNIST PARTY. THEY NOTED, MOREOVER, SERIOUS PROBLEMS GERMAN LANDOWNERS STILL FACE IN THE ALENTEJO.

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2. DISCUSSING POSSIBLE CONSORTIUM CREDIT, FRG OFFICIALS POSED NUMEROUS QUESTIONS AND LISTENED ATTENTIVELY. THEY INDICATED CONSIDERABLE SYMPATHY, BUT AFFIRMED THEY COULD GIVE NO COMMITMENT AT THIS TIME. IN EFFECT, THEY SAID, FRG HAD BEEN WAITING FOR DETAILED EXPLANATION OF USG INTENTIONS AND WOULD ONLY NOW BEGIN TO CONSIDER SERIOUSLY GERMAN PARTICIPATION IN CONSORTIUM. THEY

CLAIMED THAT BASIC ACTION RESPONSIBILITY RESTS WITH FINANCE MINISTRY, BUT THAT INTENTIONS OF OTHER POSSIBLE PARTICIPANTS, E.G., FRANCE AND JAPAN, WOULD BE INFLUENTIAL. THEY WERE PARTICULARLY IMPRESSED, AND SOMEWHAT DISAPPOINTED, BY THE NEED FOR A RAPID DECISION. THEY HAD BEEN LED TO BELIEVE USG \$300 MILLION LOAN AND RESULTS OF THIS WEEK'S BASLE MEETING HAD, BY SUPPOSEDLY POSTPONING PORTUGUESE LIQUIDITY PROBLEMS UNTIL EARLY 1978, EASED PRESSURE FOR A DECISION ON THE CONSORTIUM. GERMAN OFFICIALS EMPHASIZED THAT, SHOULD FRG AGREE IN PRINCIPLE TO JOIN CONSORTIUM, THEY WOULD WISH TO KEEP THAT DECISION CONFIDENTIAL AS LONG AS POSSIBLE. ONCE THEIR DECISION IS ANNOUNCED, THEY FEAR, GERMANY WOULD BE IRREVOCABLY COMMITTED AND THE PORTUGUESE WOULD NO LONGER FEEL OBLIGED TO ADOPT ECONOMIC REFORMS.

3. COMMENT: FOREIGN MINISTRY OFFICIALS, THOUGH NOT COMPLETELY CONVINCED OF GOP ABILITY OR WILLINGNESS TO IMPLEMENT ECONOMIC REFORMS, WERE EVIDENTLY SYMPATHETIC TOWARD CONSORTIUM IDEA. THEY DO NOT APPEAR WILLING, HOWEVER, TO PUSH THE CONCEPT FORWARD FOR AN FRG DECISION, PREFERRING TO LEAVE SUCH INITIATIVE TO THE FINANCE MINISTRY.

IN THE INTERIM, IT IS ESSENTIAL THAT WE KEEP FRG ABREAST OF DEVELOPMENTS REGARDING THE CONSORTIUM. END COMMENT.
STOESSEL

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